

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6289**

**BILL NUMBER:** HB 1029

**NOTE PREPARED:** Feb 28, 2006

**BILL AMENDED:** Feb 28, 2006

**SUBJECT:** School Bus Purchasing; Contribution Tax Credit.

**FIRST AUTHOR:** Rep. Buell

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** 2<sup>nd</sup> Reading - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** *School Bus Purchasing:* The bill provides that the Indiana Bond Bank may purchase school buses for sale or lease to school corporations. It also relaxes certain purchasing restrictions on school corporations in the case of a school corporation that purchases or leases a school bus from the Indiana Bond Bank.

*College Savings Plan Credit:* The bill provides a credit against the Adjusted Gross Income Tax liability of (1) an individual; or (2) a married couple; for contributions to an Indiana College Choice 529 Investment Plan in the amount 20% of the contributions made by the individual or married couple during the taxable year to a maximum of \$1,000.

**Effective Date:** Upon Passage; January 1, 2007.

**Explanation of State Expenditures:** *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the tax credit proposed in this bill. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** *College Savings Plan Credit:* The tax credit could potentially reduce state AGI Tax liabilities for individual taxpayers who make contributions to Indiana College Choice 529 Investment Plan accounts. The revenue loss due to the credit could potentially total \$3.2 M in FY 2008, with the total potentially increasing by about 5% annually thereafter. Potentially, the revenue loss could be higher to the extent that the credit encourages contributions to Indiana 529 Plan accounts that would otherwise not occur.

*Background:* The bill creates a non-refundable AGI Tax credit for taxpayers who make contributions to Indiana College Choice 529 Investment Plan accounts. The credit is equal to 20% of the amount of each contribution made during the taxable year, with a maximum credit of \$1,000. The tax credit is non-refundable, and taxpayers are not entitled to carry back or carry forward unused credits. In addition, the bill specifies that a taxpayer may not transfer credits to another taxpayer. Since the credit is effective beginning in tax year 2007, the fiscal impact would begin in FY 2008. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

The estimated revenue loss is based on 2004 account and contribution totals for the Indiana 529 Plan. In 2004, approximately 8,944 Indiana resident account holders contributed about \$19.4 M to accounts of the Indiana 529 Plan. The distribution of account holders by annual contribution amount is presented in the table below.

<b>Contribution Range</b>	<b>Count</b>	<b>Total Contributions</b>	<b>Average Contribution</b>	<b>Tax Credit</b>
Less than \$1,000	5,473	\$1,307,617	\$239	\$48
\$1,000 - \$1,999	1,375	\$1,838,982	\$1,337	\$267
\$2,000 and above	2,096	\$16,235,315	\$7,746	\$1,000
Total	8,944	\$19,381,914		

Based on account totals and average contributions, creditable contributions in 2004 would have totaled about \$2.7 M. Information from prior years suggests that normal annual growth in creditable contributions could potentially be about 5%.

**Explanation of Local Expenditures:** (Revised) ***School Bus Purchasing:*** The use of the Bond Bank to purchase school buses could reduce the finance and interest costs of school corporations. Lease agreements or purchase agreements between a school and the Bond Bank would not require the Department of Local Government Finance approval if the agreement conforms to the school bus plan. The property tax levy for school buses was about \$73 M for CY 2005.

**Explanation of Local Revenues:**

**State Agencies Affected:** Department of State Revenue, Indiana Bond Bank.

**Local Agencies Affected:** Local Schools.

**Information Sources:** Susan Loftus, Indiana Education Savings Authority, (317) 232-5259.

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